

Message Text

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USMISSION OECD PARIS
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SUBJ: PROPOSED BUDGET FOR TURKISH FY 1977

REF: ANKARA 9165

1. SUMMARY: DEBATES ON PROPOSED BUDGET FOR TURKISH
FY 1977 STARTED AT JOINT BUDGET COMMITTEE OF THE PARLIAMENT
ON DECEMBER 20, 1977. BUDGET DOCUMENTS PRESENTED TO THE
COMMITTEE, AND STATEMENT MADE BY THE MINISTER OF FINANCE AT
THE COMMITTEE PROVIDED FURTHER DETAILS ON BUDGET BILL. MINISTER
CLAIMED BUDGET WAS ANTI-INFLATIONARY, REVENUE ESTIMATES WERE
CONSERVATIVE, AND THAT NOW NEW TAXES WOULD BE INTRODUCED.
PROPOSED CONSOLIDATED BUDGET CALLS FOR EXPEDITURES OF TL 220
BILLION (\$13.33 BILLION) AND PROJECTS REVENUES OF TL 202 BIL-
LION (\$12.24 BILLION). THE DIFFERENCE OF TL 18 BILLION BETWEEN
EXPENDITURES AND REVENUES WILL BE MET THROUGH DOMESTIC
BORROWING. END SUMMARY.

2. CONSOLIDATED BUDGET EXPENDITURES ARE PROPOSED AT TL 220
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BILLION (\$13.33 BILLION), AN INCREASE OF 42.9 PERCENT OVER
APPROVED BUDGET FOR TFY 1976. OF THE TOTAL PROPOSED EXPEN-
DITURES, TL 94.6 BILLION (\$5.73 BILLION, UP 21.6 PERCENT OVER
TFY 1976) ARE PROPOSED FOR CURRENT EXPENDITURES, TL 63.9
BILLION (\$3.87 BILLION, UP 53.2 PERCENT OVER TFY 1976) FOR
INVESTMENTS, AND TL 61.5 BILLION (\$3.75 BILLION, UP 77.1 PER-

CENT OVER TFY 1976) FOR TRANSFERS.

3. PROPOSED BUDGET FORECASTS REVENUE AT TL 220 BILLION (\$13.33 BILLION INCLUDING TL 18 BILLION (\$1.09 BILLION) THROUGH DOMESTIC BORROWING), UP 41.1 PERCENT OVER FY 1976 REVISED ESTIMATES MADE ON THE BASIS OF SEVEN-MONTH COLLECTIONS. OF TOTAL REVENUE, TL 169.9 BILLION (\$10.30 BILLION) WILL BE GENERATED THROUGH TAXES, TL 19.5 BILLION (\$1.18 BILLION) THROUGH NORMAL REVENUE OTHER THAN TAXES, TL 12.5 BILLION (\$760 MILLION) THROUGH SPECIAL REVENUES AND FUNDS, AND TL 18 BILLION (\$1.09 BILLION) THROUGH DOMESTIC BORROWING.

4. PROPOSED EXPENDITURES IN SEVERAL DEY SECTIONS (WITH U.S. DOLLAR EQUIVALENT AND PERCENTAGES OF TOTAL BUDGET IN PARENTHESIS) FOLLOWS:

A) MINISTRY OF DEFENSE: TL 42.5 BILLION (\$2.57 BILLION) (19.5 PERCENT), UP 27 PERCENT OVER 1976. DEFENSE BUDGET DOES NOT INCLUDE TL 3.9 BILLION FOR GENDARMERIE AND TL 4.9 BILLION FOR SECURITY POLICE.

B) EDUCATION: TL 31.5 BILLION (\$1.91 BILLION) (14.5 PERCENT) INCLUDING UNIVERSITIES AND ACADEMIES, UP 17.8 PERCENT OVER 1976.

C) RURAL AFFAIRS MINISTRY: TL 8.0 BILLION (\$484.8 MILLION) (3.7 PERCENT) UP 11.1 PERCENT OVER 1976.

D) STATE HYDRAULIC WORKS: TL 14.2 BILLION (\$860.6 MILLION) (6.5 PERCENT) UP 45.1 PERCENT OVER 1976.

E) HIGHWAYS DEPARTMENT: TL 13.2 BILLION (\$800 MILLION) (6.1 PERCENT) UP 45 PERCENT OVER 1976.

F) HEALTH AND SOCIAL WELFARE: TL 6.5 BILLION (391.4 MILLION) (3.0 PERCENT) UP 21 PERCENT OVER 1976.

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G) MINISTRY OF INDUSTRY AND TECHNOLOGY: TL 14.8 BILLION (\$894.3 MILLION) (6.8 PERCENT) UP 1,531 PERCENT OVER 1976.

5. THE INVESTMENT TARGET FOR STATE ECONOMIC ENTERPRISES IN 1977 HAS BEEN ESTABLISHED AT TL 62.0 BILLION (\$3.76 BILLION) UNDER 1977 ANNUAL PROGRAM. TOGETHER WITH OPERATING DEFICIT OF TL 19.0 BILLION ESTIMATE TO OCCUR DURING SAME YEAR, FINANCING REQUIREMENTS OF STATE ECONOMIC ENTERPRISES HAVE BEEN CALCULATED TO REACH TL 81.0 BILLION (\$4.91 BILLION) IN 1977. OF THIS, TL 18.0 BILLION WILL BE ALLOCATED FROM TFY 1977 BUDGET, WHILE TL 20.0 BILLION WILL BE RAISED BY THE STATE INVESTMENT BANK, TL 25.0 BILLION THROUGH FOREIGN PROJECT CREDITS AND OTHER EXTERNAL SOURCES, TL 2.0 BILLION FROM THE PETROLEUM FUND, TL 10.0 BILLION THROUGH A SPECIAL FUND SET ASIDE FOR THIS PURPOSE, TL 2.0 BILLION THROUGH INTERNAL SEE RESOURCES, AND TL 4.0 BILLION BY THE "INDUSTRIAL INVESTMENTS ACCELERATION FUND" UNDER THE BUDGET OF THE MINISTRY OF INDUSTRY.

6. IN HIS STATEMENT PRESENTING THE TFY 1977 BUDGET BILL TO THE JOINT BUDGET COMMITTEE, THE MINISTER OF FINANCE, MR. ERGENEKON, SAID IT WAS AN ANTI-INFLATIONARY BUDGET. HE INSISTED THAT TAX REVENUE ESTIMATES OF TL 170 BILLION (UP 34.7 PERCENT OVER TFY 1976 ESTIMATES) WERE CONSERVATIVE SINCE ACTUAL TAX REVENUES IN 1975 HAD BEEN 44.4 PERCENT OVER THOSE FOR 1974 AND ACTUAL TAX REVENUES FOR 1976 (BASED ON 9 MONTHS COLLECTIONS) WERE UP 34.3 PERCENT OVER 1975. IN ADDITION, SHARE OF CURRENT EXPENDITURES IN TFY 1977 BUDGET (43 PERCENT WAS CONSIDERABLY LESS THAN 51.8 PERCENT IN 1976 OR 48.6 PERCENT IN 1975. THE RELATIVE CUT IN CURRENT EXPENDITURES, MR. ERGENEKON SAID, WOULD CURTAIL CONSUMPTION EXPENDITURES, ENCOURAGE SAVINGS AND CONSEQUENTLY INVESTMENTS AND ECONOMIC EXPANSION. THE MINISTER NOTED THAT NO NEW TAXES WOULD BE INTRODUCED, BUT SAID MEASURES WOULD BE TAKEN TO AVOID TAX EVASION AND INCREASE COLLECTIONS.

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7. ERGENEKON SIAD AT BUDGET HEARING THAT TURKEY'S INCREASED

RELIANCE ON FOREIGN RESOURCES FOR INVESTMENT FINANCING SHOULD NOT UNDULY CONCERN LEGISLATORS. THE ECONOMIC POTENTIAL OF THE COUNTRY WAS SUCH THAT IT COULD ABSORB AND SERVICE MORE FOREIGN BORROWINGS. FURTHERMORE, "TURKEY HAD NOT YET USED A GREAT PART OF HER EXTERNAL BORROWING POTENTIAL, CONSIDERING HER PER CAPITA DEBTS."

8. COMMENT: THE 1977 TFY BUDGET WAS PRESENTED TO PARLIAMENT AT 2350 HOURS, NOVEMBER 30, TEN MINUTES BEFORE LEGAL DEADLINE. SINCE DECEMBER 1-5 WAS LEGAL HOLIDAY, DOCUMENTATION ON BUDGET WAS DELAYED IN REACHING PUBLIC AND RESPONSIBLE PARLIAMENTARY COMMITTEE. FURTHERMORE, BUDGET ITSELF REPORTEDLY WAS NOT PRESENTED IN FINAL FORM ON LEGAL DEADLINE BUT WAS REFINED FURTHER DURING FIRST TWO WEEKS OF DECEMBER IN PREPARATION FOR DECEMBER 20 PRESENTATION TO JOINT PARLIAMENTARY BUDGET COMMITTEE.

9. ACCORDING TO BEST AVAILABLE REPORTS, THERE WAS SERIOUS UNCLASSIFIED

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CONTROVERSY WITHIN COALITION GOVERNMENT OVER SHARE OF BUDGET THAT WAS TO BE ALLOCATED TO DEPUTY PRIME MINISTER ERBAKAN'S NSP-CONTROLLED MINISTRY OF INDUSTRY AND NSP-CONTROLLED STATE ECONOMIC ENTERPRISES. ORIGINAL BUDGET EXPENDITURES WERE REPORTEDLY PROGRAMMED FOR TL 205 BILLION, BUT WHEN ERBAKAN RESISTED AND THREATENED THAT HE WOULD NOT SIGN BUDGET BILL, FIGURE WAS RAISE TO TL 220 BILLION. THROUGH DIFFICULT TO SUBSTANTIATE, IT APPEARS THAT EXTRA TL 15 BILLION WAS ALLOCATED TO MINISTRY OF INDUSTRY AND SOME NSP-CONTROLLED STATE ECONOMIC ENTERPRISES. RAISING EXPENDITURES TL 15 BILLION, OF COURSE, REQUIRED RAISING ESTIMATED REVENUES AS WELL AS PROBABLY MEANS THAT THERE IS SOME EXAGGERATION IN REVENUE ESTIMATES FOR TFY 1977, PARTICULARLY IN TL 32 BILLION ANTICIPATED NON-TAX REVENUES.

10. THE TFY 1977 BUDGET HAS ALREADY RECEIVED HEAVY CRITICISM FROM THE PRESS AND IN PARLIAMENT. PARTICULAR CRITICISM HAS BEEN LEVELED AT LAST-MINUTE EXPANSION OF BUDGET FROM TL 205 BILLION TO TL 220 BILLION. CRITICS INSIST THAT DEFICIT WILL BE AT LEAST TL 35 BILLION INSTEAD OF PROJECTED TL 18 BILLION. THE OPPOSITION IN PARLIAMENT IS ALMOST CERTAIN TO FOCUS CRITICALLY ON AVAST EXPANSION IN EXPENDITURES ALLOTTED TO MINISTRY OF INDUSTRY AND STATE ECONOMIC ENTERPRISES CONTROLLED BY THE NSP. ANOTHER SUBJECT ALMOST CERTAIN TO BE RAISED IN PARLIAMENTARY COMMITTEE IS ESTAMATED STATE ECONOMIC ENTERPRISES PROJECTED DEFICIT OF TL 19 BILLION (\$1.15 BILLION) AND PLANS FOR SEES TO BORROW TL 25 BILLION (\$1.5 BILLION) FROM EXTERNAL RESOURCES IN 1977.

11. BUDGET WILL PROBABLY BE REVISED IN PARLIAMENT. BUDGET IS ALREADY OUT OF LINE WITH RESPECT TO RAISING SALARIES OF GOVERNMENT EMPLOYEES. DEMIREL GOVERNMENT HAD RECOMMENDED RAISE OF 11.1 PERCENT (COST OF NET TL 3.8 BILLION TO BUDGET). OPPOSITION WANTS TO RAISE SALARIES 33 PERCENT, AT NET COST TO BUDGET OF TL 11.4 BILLION. WITH ELECTIONS SCHEDULED FOR OCTOBER 1977, IT NOW APPEARS UNCLASSIFIED

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LIKELY THAT ALL PARTIES WILL AGREE ON 33 PERCENT RAISE. DEMIREL,
IN FACT, PREDICTED THAT CIVIL SERVICE SALARIES WOULD RISE
30 PERCENT IN HIS PRESS CONFERENCE ON DECEMBER 19.

12. UNDER TURKISH CONSTITUTION DEBATE ON BUDGET
MUST TAKE PLACE AND BUDGET APPROVED BY PARLIAMENT BEFORE
THE BEGINNING OF THE NEW FISCAL YEAR, I.E. MARCH 1, 1976.
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